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ISLAMIC ECONOMICS:
A UTOPIAN-SCHOLASTIC-NEOCLASSICAL-KEYNESIAN SYNTHESIS! A REVIEW ESSAY

Sohrab Behdad

***Islamic Economics: Theory and Practice* (*Foundations of Islamic Economics*), revised edition.**
By Muhammad Abdul, Mannan
Sevenoaks, Kent, UK: Hodder and Stoughton (U.S. distribution by Westview Press), 1986, Pp. xvi, 425, paper.

Islam is explicitly concerned with worldly life and provides extensive guidelines for the conduct of economic affairs. The study of these guidelines, in an effort to adjudicate in Islamic societies which have been governed by Islamic law, or to answer the questions of believers on their economic affairs, have constituted a significant aspect of Islamic jurisprudence (*fiqh*). Abu Yusuf (731-798), Nasiruddin Tusi

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(1201-1274) and Ibn Khaldun (1332-1406) are among the Islamic scholars who have contributed to the analysis of economic conditions in Islamic societies.

The literature that has come to be known in the past three decades as Islamic economics attempts to draw a blueprint for an Islamic economic system in the Muslim countries of the third world. Islamic economics is clearly influenced by the ideological orientation of the Islamic political movements in their effort to disassociate themselves from the socialist-marxist movements, on the one side, and the oligarchic rule of the landlords and big business, on the other. Islamic economics seeks to prove the supremacy of the Islamic economic order to the two rival and existing systems, capitalism and socialism. It heralds a new order, a third pole or path, which it claims is more humane, harmonious and equitable than the other two systems. Thus, Islamic economics has a clear protagonist posture. Yet it is diverse, ideologically and methodologically. This diversity reflects the spectrum of ideological orientations in the Islamic political movements and the familiarity and affinity of different "Islamic economists" with contemporary economic paradigms.

Mannan's *Islamic Economics* is one of the pioneering attempts to construct a theoretical framework for Islamic economics. The first edition (1970) had become a standard reference in the English language to Islamic economics. The revised edition is in three parts (18 chapters), dealing with the methodology of Islamic economics, the general character of an Islamic economy, and the micro and macro setting of an Islamic economy.

Mannan maintains that "there is a unique Islamic economic system and science" (p. 4). Islamic economics, he asserts, explains the economic problems of "the Muslim community of today" (p. 4), or those of the "people imbued with the values of Islam" (p. 18). Mannan's contention about the uniqueness of Islamic economics sets him apart from the Islamic economists who see the uniqueness in the economic system of Islam and not in the analysis of it (e.g., Sadr, 1968) and maintain that Islamic *economics* is an extension of mainstream economics (e.g., Choudhury, 1986).

In the first three chapters Mannan lays out the methodological foundations of Islamic economics. He asserts that the underlying assumptions of the "neoclassical orthodox paradigm" or the "Marxist-radical paradigm" are "either inappropriate or inadequate or incapable of explaining the Muslim worldviews on economic

matters" (p. 4). He does not elaborate on his objections to the "Marxist-radical paradigm" in these methodological chapters. He later (p. 88) criticizes Marx for his "belied prophecy" on the course of development of class conflict and for his labor theory of value ("because it is not possible to reduce all labourers to one grade," and because the theory "ignores the demand factor altogether and does not recognize the contribution of fixed capital in producing surplus value.") All this in eight lines. The same ideas are repeated almost verbatim (as many other ideas are in this book) on page 324 and alluded to repeatedly throughout the book. Mannan rejects Marx's materialist conception of history in his critique of communism as an economic system (pp. 322-326) and introduces an "Islamic concept of history" (pp. 330-333). Other Islamic economists (for example, Sadr, 1968) have criticized Marxism more rigorously along the traditional line of the mainstream literature.

Mannan's critique of mainstream economics is centered around its distinction between positive and normative analysis. The epistemological basis of Mannan's critique is Islamic scholasticism. Islamic economics, as Mannan asserts, rests upon the "timeless," "universal and fundamental" prescriptions of the Divine Law (*shari'a*) (pp. 11, 15, 124, and 146) and, as Mannan readily admits, "a number of issues in Islamic economics cannot be settled solely by an appeal to observation" (p. 12). Mannan fears that the positive-normative distinction "may perhaps backfire... [by giving] rise to the birth and growth of 'secularism' in Islamic economics" (p. 11), as "the positivists' pre-occupation with empirical tests and immediate results," contributed to the decline of Christianity (p. 12). "The tendency to test everything with limited human knowledge and bias may," according to Mannan, "destroy the basic foundations of Islamic economics" (p. 11). He sees, of course, no contradiction between this view and his criticism of communism as " a sort of a priori dogma... which rejects free criticism... believing itself to be eternal and unchanging" (p. 324). Mannan is not, however, completely liberated from "the intellectual stranglehold of the positivists" (p. 12). He accepts the "positive" and "normative" categories in economic analysis, but maintains that in Islamic economics these elements are inseparable (p. 9).

To Mannan, the *ceteris paribus* mode of analysis is the basis of economic theorizing, and an economic law is a natural law in the same sense that a law of chemistry is (p. 26). The only difference is

that an economic law is a statement of tendency and as such, quoting (Edwin R.) Seligman (from "his *Principles of Economics*," full reference is not given), is "hypothetical," and therefore less exact than the laws of natural sciences (pp. 26-27). The acceptance of economics as a set of natural laws and the neoclassical human want-scarcity dilemma as the fundamental axiom of economics brings Mannan to formulate his scholastic-neoclassical-Keynesian synthesis.

Mannan states that "the fundamental economic problem of mankind...[is] that we have wants and ... [we have] limited resources of human energy and material equipment" (p. 18). As Mannan admits, there is little difference in substance between this statement and that of Lionel Robbins which he quotes on the same page (without source and citation, as is the case for most of the quotes in this book). Mannan, however, suggests "if there is any difference" between Islamic economics and "modern economics" on the issue of scarcity, it is in the way choices are made "in the eternal conflict between multiplicity of wants and the scarcity of means" (pp. 18-19). In an Islamic society, choices are to be made according to divine prescriptions. In this way, Islamic economics superimposes the divine prescriptions of Islam as "normative" constraints upon "the laws of economics" to explain and to regulate the working of the market in an Islamic society (pp. 5-8 and 26-39). For example, the Islamic prescriptions for moderation in consumption and profit-making are incorporated into the neoclassical analysis of consumer preference and the theory of the firm (pp. 8, 10-11, and passim); or Islamic taxes (*zakat*) and prohibition of interest are introduced into Keynesian macroanalysis and investment theory (pp. 126, 237, and passim).

Hence, Mannan's Islamic economics, in spite of his methodological contentions, is little more than an extension of mainstream economics. This methodological approach is feasible because an Islamic economy is clearly a market economy (see chapters 4-7). Muhammad's explicit emphasis on the proper functioning of the market makes any fundamental negation of the market heretical. Muhammad's Tradition (*sunna*) reflects also his preference for a cash, rather than a barter economy (see, for example, a statement by Rafi on page 57). Mannan does not therefore violate the Islamic precepts when he states that "Islamic economics deals mainly with problems involving money" (p. 18), although it is interesting that he feels compelled to quote Marshall to make his case (p. 27).

Islam's emphasis on social harmony and justice is also indisputable although the specific definitions of these concepts in the concrete social circumstances have been controversial. The adherence of individuals to the divine prescriptions of Islam in their worldly affairs, and in their conduct in the market, in particular, would materialize this harmony and justice. Since individuals may not act in complete compliance with the divine prescriptions, the state must intervene to assure this harmony and justice (pp. 356-357). Therefore, in my view, the basic epistemological difference between mainstream economics and Islamic economics is that one relies on man's nature "as is," and the other on what his character "ought to be." To one, state intervention is the last resort (a leviathan) for the resolution of social conflict, and to the other, the state is a necessary social guardian of the less-than-ideal man. In both cases, however, an idealized market is the nexus of social relations of production among individuals.

The Islamic notion of God's ultimate ownership (not unlike that of Christianity) is the basis of Islamic ideological collectivism and the source of legitimacy of state intervention in the market. According to Islam, man holds property as a trustee, responsible to God (p. 65). Hence God's ownership supersedes the right of the individual to property, and an Islamic state, representing the will of God, may impose limits on private property rights. The Islamic notion of God's ultimate ownership has been interpreted narrowly by some as no more than the eminent domain right of the state in capitalism. On the other end of the spectrum, however, it has also been relied upon to justify various forms of socialist collectivism. This spectrum of views closely corresponds to the ideological spectrum in the Islamic political movements extending from a position not unlike the post-Reformation (bourgeois), Christian paternalistic ethic (à la E. K. Hunt, 1986, pp. 108-110) to one not dissimilar to the radical versions of the Christian socialist and liberation theology movements. There is ample evidence in the Koran and Tradition to substantiate this wide spectrum of views. Islamic economists are, however, not only conscious but, one may also say, obsessed with making clear the lines of demarcation between their conception of the Islamic economic system and the fundamentals of capitalist and socialist (some prefer calling it communist) systems. Every treatise in Islamic economics begins and continues its analysis of the Islamic economic system with a critique of the other two systems.

Mannan criticizes the "unrestricted ownership of property in capitalism" and "collectivism or State ownership of everything" in "communism" (pp. 64-65). One is "responsible for the gross maldistribution of wealth and income" (p. 64). The other "has reduced man to a machine" and has "limitations of a serious character" about "incentives and... personal liberty" (p. 65). Islam, according to Mannan, "maintains a balance between [these] exaggerated opposites" (p. 65). "The uniqueness of the Islamic concept of private ownership," Mannan claims, "lies in the fact that in Islam the legitimacy of ownership depends on the moral sign attached to it" (p. 64). Property in an Islamic society, according to Mannan, must be used by the owner to "discharge his social responsibilities in a manner consistent with the injunctions of [Islam]" (p. 366), that is, by promoting social welfare (p. 312). If such a purpose is not served, the state can deprive the owner of his/her ownership rights (p. 366). Hence, private property in Islam "becomes very vulnerable" (p. 312). This "vulnerability" is reflected in the limitations imposed on the use of property and conduct of affairs in the market, and in the permissible domain of state intervention in the economy.

Islam prohibits usury (*riba*, meaning excessive gain), monopoly, hoarding, speculation and production and consumption of certain products such as pork and intoxicants, and requires payment of a wealth tax. The market in an Islamic economy would work within these constraints and with the Islamic "high standard of straightforwardness, reliability and honesty" (p. 285). The outcome is a "healthy competition" (p. 147) which, according to Mannan, unlike free competition provides "all aspects of basic needs with which an Islamic market is concerned" (p. 148).

Mannan's Islamic theory of the firm (chapter 8) is a utopian-mainstream theoretical muddle. He relies on the standard neoclassical analysis to justify the undesirability of noncompetitive (monopoly) markets to Islam. In this effort his analysis contains a number of errors and theoretically awkward statements. One may not quibble about a possible misprint on page 150 stating that the equilibrium for a firm in a perfectly competitive market is reached when "marginal revenue is equal to price"but it is amazing that the same "misprint" is seen on page 208 of the first edition of the book. On another occasion he states: "In a free economy, demand for and supply of commodities determines the normal price, *which measures the effective demand being determined by the degree of the scarcity of supply*" (p. 146, italics mine). Mannan also states that an altruistic, socially concerned Islamic firm which does not strive to maximize profit may not have a unique equilibrium. Then he adds: "Different theories may yield different predictions. For example, a sale maximizing theory which predicts larger output and lower prices than a profit-maximizing theory in a particular situation have *different implications for the elasticity of demand at the firm's market price*" (pp. 149-150, italics mine). These are, at best, awkward theoretical statements. Mannan never explains what he means when he says "in Islamic theory we are more inclined to accept the concept of 'average' rather than of 'margin'" (p. 147). Nor does he elaborate in this chapter, or elsewhere, the incorrect statement made earlier, that "in an Islamic framework it should be possible to conceive of a firm which may require to satisfy only the first order condition [for profit maximization]" (p. 11). Mannan either is confusing minimum acceptable profit for an entrepreneur who does not wish to maximize profit with minimum possible profit (i.e., maximum loss, which may be the case if the second order condition is not satisfied) or is unfamiliar with elements of calculus. (Although this sort of theoretical error and misstatement of the mainstream analysis is not rare in the works of other Islamic economists, it certainly is not typical of the Islamic economic literature. Some have formulated sophisticated neoclassical-Keynesian models for explaining the working of the market in an Islamic economy. See for example, Choudhury, 1986 and Kahf, 1980).

With these confusions in Mannan's Islamic-neoclassical synthesis of the theory of the firm, how are prices determined in a "healthy competitive" Islamic market? By "consensus of opinions" (whose opinion?) and "correct adjudication," says Mannan without explaining either (p. 147). "Proper co-operation between consumers and producers" is also necessary and may be achieved, according to Mannan, by "inject[ing]... the spirit of Islamic values and code of business conduct through systematic education" (p. 147) Meanwhile it is the responsibility of the state to maintain "fair" prices (p. 147).

Dealing with capital is a difficult task for Islamic economists. Interest is not permitted by Islam but profit is, and Islamic economists have to provide the theoretical justification for this fine line of separation between the capitalist heaven and the Islamic hell. Mannan's journey into the mainstream theory of capital (pp. 121-132) is no more rigorous than his neoclassical treatment of prices.

One example should suffice. He asserts that the mainstream theory of capital is inadequate because "it does not explain why a particular rate of interest is paid" (p. 121). He continues by saying "if interest is paid because of the productivity of capital, then it should be variable for productivity itself tends to vary from one industry to another" (p. 121)! Mannan relies on Keynes to argue that interest payment is not necessary for accumulation of saving (pp. 61, 121 and 126), and on Wesley Mitchel to suggest that rising interest rate may cause a depression (pp. 127-128). His principal objection to the payment of interest is, however, ethical. He maintains that "interest is a negation of the universal principle of brotherhood of man and co-operation... a naked exploitation of brother's needs... exploitation by the 'haves' of the 'have nots'" (pp. 130-131). Mannan proclaims "an interest-free economy, as advocated by Islam, is the only solution to mitigate the suffering of the degraded humanity of the capitalist economic system" (p. 126).

Mannan justifies a return on capital in the form of profit. He is "inclined not to consider capital as a a fundamental factor of production" but, in the words of Wicksel, as "a single coherent mass of saved-up labor and saved-up land" (p. 60). Whether a fundamental factor of production or not, "nobody can challenge that capital is productive," claims Mannan (p. 121). Because market activities involve risk for capital and "assumption of risk is a disutility, it is to be paid in the form of profit" (p. 132). Of course, Islam does not sanction "unrestricted and abnormal profit which a capitalist earns" (p. 131). Such profits are "generally the result of monopolies and cartels" and are "clear exploitation of society" (p. 131). This is as close as Mannan comes to defining the terms capitalist and exploitation. He does not, however, confine himself to this definition in his attacks on the capitalist class ("the existence of which is a threat to the basic economic ethics of Islam" [p. 81]) and in his condemnation of exploitation. It appears that to Mannan anyone who engages in "excessive" accumulation of capital is a capitalist and any "unfair" economic relation is exploitation.

When he comes to the consideration of capital-labor relations, Mannan, however, contends that "Islam... does not recognize the exploitation of labour by capital, nor does it approve of the elimination of the capitalist class" (p. 88). Recognizing the "eternal conflict of interest between classes in modern society" (p. 90) Mannan maintains that Islam will bring a "happy marriage between labour and capital" (p. 88) and "a happy relation between master and servant" (p. 90) by giving the problem "a moral bent" (p. 88). This moral bent is that "neither employee nor employer can exploit each other," (p. 59) that "the servant shall do his work faithfully... and the master shall pay him fully" (p. 88). Mannan believes that many issues in labor relations, such as strikes and lockouts, "would be relatively unimportant... if both workers and employers are imbued with the values of Islam" (p. 94). But this does not appear to provide much relief since only a few pages earlier one reads that in "modern society... it is difficult, or rather impossible, to imbue workers with [Islamic values, such as] a spirit of austerity of conduct and a high sense of dignity of labour" (p. 90). Employers do not seem to be as resistant to being "imbued" by these values.

Mannan's analysis of wage determination in an Islamic economy is also within the mainstream tradition in economics. Mannan does not appear to be content with the neoclassical model for wage determination when he says that "even if the Marginal Product Theory of wages, which has been subjected to various criticism [on what grounds and by whom?], is taken for granted, it will remain valid only under condition of perfect competition" (p. 116). But this implied criticism amounts to no more than saying that in imperfect competition in the labor market the workers may "get wages much lower than their marginal [revenue] product" (p. 116) Mannan calls this, which is itself a conclusion of the marginal productivity theory, capitalist exploitation of labor (pp. 92, 116). He declares it a phenomenon "foreign to the Islamic faith" (p. 116). Neither A. C. Pigou nor Joan Robinson receive any credit from Mannan, and he remains unclear about whether "fair wages" in Islam is anything but the marginal revenue product of labor.

The state must, according to Mannan, engage in regulation of the market and in economic "planning by inducement and direction" (p. 352 and chapter 18). More specifically, he suggests that the state may intervene to "change the composition of economic activities in different sectors" (p. 56), to "secure a balance of economic activities and to prevent wasteful use of property" (p. 66), and to prevent capital from being "used to the detriment of society" (p. 60). The state may "prevent undue concentration of wealth by progressive taxes" (p. 69), may use fiscal policy to the same end (p. 68), may "enforce decent wages" (p. 116), or may control "conspicuous waste" (p. 154). Punishment may await

"dishonest activities," hoarding and "monopolizing" (p. 70). The state may "control and regulate monopoly price and profit" (p. 150), and "as an extreme step" may nationalize monopolies (p. 151) or deprive the owners of "speculative and anti-social businesses" of ownership (p. 154). Of course, the severity of the imposed limitations on property rights will depend on the operational definition of the above reasons for state intervention. But, in my view, the above causes for state intervention in an Islamic economy are categorically not different from those already accepted in the developed or underdeveloped, non-Islamic, capitalist economies.

Mannan contends that an Islamic economy is a "fusion of capitalism and socialism" (p. 168), "a social system which is capitalist in broad outline restricted very largely by socialist institutions and ideas" (p. 330). He sees the Islamic economic system as the point of historical convergence between the existing economic systems:

> Both the capitalist and communist systems are making great efforts in improving themselves in such a way that communism seems to have started to lose its rigidity towards the ownership of personal property and capitalism is finding more ways and means for the equitable distribution of natural wealth for the benefit of the common people. But Islam has already provided these fundamentals in its economic system where free enterprise and ownership of private property are allowed and accumulation of wealth in a few hands and exploitation of the poor by the rich are prohibited. This Islamic economic system is called Islamic socialism or social order (p. 346).

Whether or not a convergence hypothesis is plausible is not our concern here. The relevant question is the viability of the Islamic economic system, as an economic order distinct from the existing systems. The outline or the structure of the Islamic economy is capitalist, as Mannan states. The socialist character of such an idealized system rests upon the assimilation of the collectivist ideology of Islam and the regulatory function of the Islamic state. Both appear doubtful to me. The idealized injunctions of Islam have never been followed throughout history, except for a short period of time by Muhammad and his small circle of Companions. Mannan makes a qualifying admission to this effect in this book (p. 81). I doubt that such values can be "imbued" no matter how forcefully they are "injected" in the social context of the capitalist relations of production. Once this idealized world is put aside, what we are left with is an interventionist state regulating a capitalist economy. The extent and intensity of restriction imposed by the state is, of course, a reflection of the balance of powers in the society. In an Islamic state there is also a severe jurisprudential constraint. That is, each regulatory function of the state must be sanctioned by Islamic jurisprudence, a fourteen-century-old legal tradition which is within the exclusive domain of Muslim jurists (*mujtahids*). Mannan and other Islamic economists may pick and choose among various precepts of Islam, but the final say on what the teachings of Islam imply in modern times is with the Muslim jurists. Historically "the capitalist class" seems to have had the upper hand in "interpret[ing] the Qur'anic Law in a way that suited their interest and did not hamper the exploitation of poor people" (p. 81). If Mannan's concept of an Islamic economy is anything radically different from the existing economies of Saudi Arabia and Pakistan, he must be expecting a radical Islamic reformation which would entail major reinterpretations of the fundamentals of Islamic jurisprudence. I do not expect such a reformation. The protection of property and the propertied class is too explicit in the Islamic tradition to be challenged successfully by any reformist movement which claims its legitimacy in Islamic ideology (Rodinson, 1981; Behdad, 1989). The history of Islamic movements, including its last episode, the Iranian revolution, supports this claim.

I must, however, confess to my fascination with utopian thoughts, pure or eclectic, religious or secular. They offer the inquiring mind limitless horizons to search for boundaries of intellectual imagination. The similarity between the utopian thought of Islamic economists and that of the nineteenth century West is striking. It is strange that neither Mannan nor any other Islamic economist shows any awareness about this extraordinary achievement in intellectual imagination, or about its political fate. There is a great deal to be learned from both, I believe.

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